

KEEGAN, WERLIN & PABIAN, LLP

ATTORNEYS AT LAW
265 FRANKLIN STREET
BOSTON, MASSACHUSETTS 02110-3113

(617) 951-1400

TELECOPIERS:
(617) 951-1354
(617) 951-0586

November 9, 2004

Mary L. Cottrell, Secretary
Department of Telecommunication and Energy
One South Station, 2nd Floor
Boston, MA 02202

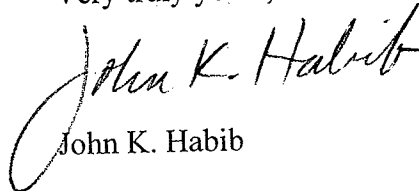
Re: D.T.E. 04-85 — Petition of Boston Edison Company and Commonwealth Electric Company for Approvals Relating to the Restructuring of Power Purchase Agreements with Northeast Energy Associates Limited Partnership _____

Dear Secretary Cottrell:

Enclosed please find the responses of Boston Edison Company and Commonwealth Electric Company d/b/a NSTAR Electric (the "Companies") to discovery questions asked by the Attorney General and the Department of Telecommunications and Energy in the above-referenced proceeding, as listed on the following Discovery Log. Please note that there are no confidential documents responsive to these questions, and thus, no separate filing is being made relating to these responses.

Thank you for your attention to this matter.

Very truly yours,


John K. Habib

Enclosures

cc: Service List
Joan Foster Evans, Hearing Officer (2)
Colleen McConnell, Assistant Attorney General (2)

LOG OF RESPONSES FILED

D.T.E. 04-85

November 9, 2004

AG-1-1	Filed November 8	Attachment AG-1-1 (a) Attachment AG-1-1 (b) Attachment AG-1-1 (c) Attachment AG-1-1 (d) Attachment AG-1-1 (e)
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AG-1-3	Filed November 3	Attachment AG-1-3 CONFIDENTIAL
AG-1-4	Filed November 3	Attachment AG-1-4 (a) Attachment AG-1-4 (b) Attachment AG-1-4 (c)
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AG-1-10	Filed November 3	Attachment AG-1-10 (a) CONFIDENTIAL Attachment AG-1-10 (b) CONFIDENTIAL
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Information Request AG-1-28

Referring to Exhibit NSTAR-RBH-6, page 5, Column "Peak-Period Purchase Rate," please provide the workpapers, calculations, formulas, assumptions, and supporting documentation for the Peak-Period Purchase Rate amounts shown for each year along with citations to the power agreement where applicable.

Response

Please refer to Attachment AG-1-13 (**CONFIDENTIAL CD-ROM**), worksheet "NEA B", column I, rows 28 through 65. Also, the calculation of the Peak-Period Purchase Rate is discussed in Exhibit NSTAR-COM-GOL-1, the Power Purchase Agreement between Commonwealth and Northeast Energy Associates Ltd., dated January 28, 1988, Article 8, Section (a) (Bates pages 0222 through 0224) and Appendix B (Bates page 0258).

As stated in Article 8, Section (a), the Peak Period Purchase rate (PPR_t) is $[(ER_{pt} + CR_t) / TR_t] \times TPR_t$

Where:

ER_{pt} is the Company's Peak Period Qualifying Facility Power Purchase Rate per month

CR_t is the annual Peak Period capacity value applicable in each month as shown in Appendix B.

TR_t is:

$\{CR_t \times [\text{Peak Period Hours in the month} / \text{total hours in the month}]\} +$
 $\{ER_{pt} \times [\text{Peak Period Hours in the month} / \text{total hours in the month}]\} +$
 $\{ER_{ot} \times [\text{Off-peak period hours in the month} / \text{total hours in the month}]\}$

TPR_t is the annual non-time-differentiated purchase rate applicable to the month as shown in Appendix B

ER_{pt} is forecast to be 3.083 cents per kWh for the entire period. The ER rate is fixed because it refers to Boston Edison's Qualifying Facility Rates, which at the time of this contract was executed was the P1 rate and was based on the Boston Edison's avoided costs. The P1 rate is no longer updated and remains fixed at 3.083 cents per kWh for peak periods. The P1 rate is applicable to NEA B.

NSTAR Electric
Department of Telecommunications and Energy
D.T.E. 04-85
Information Request: **AG-1-28**
November 9, 2004
Person Responsible: Robert B. Hevert
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Please note, CEA has updated footnote number one and two on page five. The previous capacity factor shown in the footnote was incorrect, although the appropriate capacity factor was applied in the calculation.

Information Request AG-1-29

Referring to Exhibit NSTAR-RBH-6, page 5, Column "Off-Peak Period Purchase Rate," please provide the workpapers, calculations, formulas, assumptions, and supporting documentation for the Off-Peak Period Purchase Rate amounts shown for each year along with citations to the power agreement where applicable.

Response

Please refer to Attachment AG-1-13 (**CONFIDENTIAL CD-ROM**), worksheet "NEA B", column J, rows 28 through 65. Also, the calculation of the Off-Peak-Period Purchase Rate is discussed in Exhibit NSTAR-COM-GOL-1, the Power Purchase Agreement between Boston Edison and Northeast Energy Associates Ltd., dated January 28, 1988, Article 8, Section (a) (Bates pages 0222 through 0224) and Appendix B (Bates page 0258).

As stated in Article 8, Section (a), the Off-Peak Period Purchase rate (OPR_t) is $[ER_{ot}/TR_t] \times TPR_t$

Where:

ER_{ot} is the Company's Off-Peak Qualifying Facility Power Purchase Rate in the month

TR_t is:

$\{CR_t \times [\text{Peak Period Hours in the month} / \text{total hours in the month}]\} +$
 $\{ER_{pt} \times [\text{Peak Period Hours in the month} / \text{total hours in the month}]\} +$
 $\{ER_{ot} \times [\text{Off-peak period hours in the month} / \text{total hours in the month}]\}$

TPR_t is the annual non-time-differentiated purchase rate applicable to the month as shown in Appendix B

ER_{ot} is forecast to be 2.18 cents per kWh for the entire period. The ER rate is fixed because it refers to Boston Edison's Qualifying Facility Rates, which at the time of this contract was executed was the P1 rate and was based on the Boston Edison's avoided costs. The P1 rate is no longer updated and remains fixed at 2.18 cents per kWh for off-peak periods. The P1 rate is applicable to NEAB.

Please note, CEA has updated footnote number one and two on page five. The previous capacity factor shown in the footnote was incorrect, although the appropriate capacity factor was applied in the calculation.

Information Request DTE-1-2

Refer to Exh. NSTAR-GOL at 22. Please explain why the Companies use the discount rate of 8.1 percent in this exhibit, 6.61 percent on Exh. NSTAR-BECO-GOL-2, and 8.2 percent on Exh. NSTAR-COM-GOL-2. What is the basis for using these three different discount rates?

Response

Exhibit NSTAR-GOL at 22 refers to the calculation of the adjusted bid price. This discount rate was negotiated between NSTAR Electric and NEA for the sole purpose of the calculation. Please refer to Petition, Appendix A, Bates pages 16-17 and 431-435 for a further description of the adjusted bid price and a sample calculation.

The basis for the other two discount rates is described in the response to Information Request AG-1-9 and repeated here:

“(a) As stated in Exhibit AG-1-9 in D.T.E. 04-68 and Exhibit AG-1-9 in D.T.E. 04-61, ‘the 6.61 percent discount rate was established in Boston Edison’s Restructuring Settlement Agreement as approved by the Department in D.P.U./D.T.E. 96-23. Please see Attachment AG-1-9, a copy of Attachment 3, Schedule 1, page 14 of the Restructuring Settlement Agreement, which calculates the 6.61 percent.’

Please also refer to Exhibit DTE-2-2 in D.T.E. 04-60, and Mr. Lubbock’s testimony in D.T.E. 04-60 (Tr. at 102-104). The same procedure for determining the net present value of customer savings was approved by the Department in D.T.E. 04-60, at 25.

(b) As stated in the response to Information Request AG-1-9 in D.T.E. 04-78, ‘the 8.20 percent discount rate used by Commonwealth was based on the actual capital structure used in Commonwealth’s Restructuring Plan as approved by the Department in D.P.U./D.T.E. 97-111.’ The calculation of this rate is made on the same basis as was used for the Commonwealth rate as filed in D.T.E.-04-60, D.T.E. 04-61 and D.T.E. 04-78. Commonwealth’s rate is calculated as follows:”

<u>Description</u>	<u>Actual Capital Structure</u>	<u>Cost Rate</u>	Weighted Cost of Capital	
			<u>Before Taxes</u>	<u>After Taxes</u>
Debt	47.75%	8.82%	4.21%	2.56%
Equity	<u>52.25%</u>	10.80%*	<u>5.64%</u>	<u>5.64%</u>
Total	<u>100.00%</u>		<u>9.85%</u>	<u>8.20%</u>

* Commonwealth's actual allowed Return on Equity as established in D.P.U. 90-331 is 12 percent. However, at the time of restructuring, Commonwealth agreed to reduce its ROE to 10.8 percent for purposes of determining transition charge recoveries.

Information Request DTE-1-5

Refer to Exh. NSTAR-RBH-5 Note 3 and 4. Please explain the effect on this exhibit and the bid prices by changing the closing date to a date that is later than the initial date of April 2004.

Response

The assumption of an April 2004 closing date for the calculation of future contract obligations was done to conform to the proposed date in the NEA bid. As described in Exhibit NSTAR-GOL, at 17-24, the NEA Restructuring is designed to make adjustments so that, to the extent possible, the economics replicate the restructuring of the PPAs as if it had actually occurred on April 1, 2004.

Information Request AG-2-7

Please provide the economic analysis supporting the original selection of NEA to provide service to Boston Edison that led to the original NEA-B contract.

Response

NSTAR Electric has not been able to locate copies of an economic analysis of the NEA B contract. However, an attachment to the NEA-B contract is the final bid that resulted in the contract (Petition, Appendix A, Bates pages 0247-0257). The bid includes an economic analysis in accordance with the Department's requirements for RFPs (id., Bates pages 0253-0257).

Information Request AG-2-12

Please explain why NEA is not included in the Company's proposed securitization. Provide all economic analyses supporting the decision to exclude NEA from the securitization.

Response

As stated in my testimony in D.T.E. 04-70, Exhibit NSTAR-GOL page 14:

"While it might be possible to securitize the future payments to purchased power suppliers where the future payments are fixed and currently known, the interest arbitrage between borrowing at the securitization rate and the available investment with a AAA investment company is negative. Thus, no benefits would accrue to customers from securitizing these future cash obligations."

The payments in the case of NEA are fixed and currently known, but there would be no customer benefit in securitizing the payments. To securitize the payments NSTAR Electric would present value the future payment streams at the securitization rate (4½ percent). NSTAR Electric would then put these funds with an AAA investment company to assure that the money would be available to pay the future the future fixed payment amounts. The fund would have to earn more than the 4½% securitization rate used to present value the fixed payment streams or there would be a shortfall.

NSTAR Electric discussed this possibility with its investment bankers and was informed that that the rate that would be guaranteed by the AAA investment companies would be less than the securitization rate.

If NSTAR Electric securitized under the above conditions, customers would pay 4½ percent on the securitized amount, but would earn less than 4½ percent on the securitization balance. Thus future customer payments would be higher than under the non-securitization case.